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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, JULY 10, 2002

APPLICATION OF

WASHINGTON GAS LIGHT COMPANY
AND SHENANDOAH GAS DIVISION OF
WASHINGTON LIGHT COMPANY

CASE NO. PUE-2002-00364

For general increase in natural gas
rates and charges and approval of
performance-based rate regulation
methodology pursuant to Va. Code
§ 56-235.6

ORDER FOR NOTICE AND HEARING

On June 14, 2002, Washington Gas Light Company ("Washington Gas" or "WGL") and the Shenandoah Gas Division ("Shenandoah") of WGL (together, "Companies") filed an application with the State Corporation Commission ("Commission") for a general increase to its current rates and charges for natural gas. The application also seeks approval, pursuant to Va. Code § 56-235.6, for a performance-based form of regulation. The Companies seek an increase of \$23,809,086 in the Companies' combined annual operating revenues, an increase of approximately 6.6% in total operating revenues.

The Companies' application notes that one of its purposes is the merger of the rates, terms and conditions, and purchased gas charges ("PGCs") of WGL and Shenandoah. The Companies

propose to begin moving towards the uniform application of the Companies' system, distribution and miscellaneous charges. The Companies propose a new tariff with a single set of rate schedules applicable to customers but with different rate pricing for WGL and Shenandoah customers where these rates have not been completely merged.

With regard to the proposed System Charges applicable to residential customers as set forth in Rate Schedule Nos. 1 and 1A, the Companies propose to eliminate the system charge differentials reflected in WGL's Rate Schedule Nos. 1 and 1A based on (i) normal weather annual usage below and equal to or greater than 1,000 therms, and (ii) heating and/or cooling customers and non-heating and non-cooling customers. Proposed Rate Schedule Nos. 1 and 1A contain only one system charge applicable to all residential customers. In addition, the Companies propose increases to system charges on all rate schedules. The Companies allege that in no case does the proposed increase to any system charge exceed approximately 50%.

The proposed annual increases for customers of WGL and customers of the Shenandoah Division, by rate class, are as follows:

WGL VIRGINIA CUSTOMERS

Residential	6.9%
Commercial and Industrial	2.7%
Group Metered Apartments	2.2%

SHENANDOAH CUSTOMERS

Residential	2.1%
Commercial and Industrial	1.1%
Group Metered Apartments	1.6%

Changes are proposed to the Companies' tariffs to revise the charges for Metering; to delete the reference to seasonal turn-off and/or lighting of gas appliance pilot lights in GSP No. 10, Gas Leaks and Safety Concerns; to increase the charges for reinstatement of service following termination of service in GSP No. 11, Discontinuance of Service; to increase the fee for dishonored checks; to revise GSP No. 22, Service initiation charge, and to increase to \$25.00 the charge for making an electronic payment that fails due to insufficient funds and to extend such charge to customers of the Shenandoah Division, (GSP No. 25, Automated Payment Plan).

The Companies propose to combine the Risk Sharing Mechanism ("RSM") and Margin Sharing Mechanism ("MSM") provisions of WGL and Shenandoah into a single RSM based on the combined interruptible cost of service of WGL and Shenandoah. The proposal incorporates the provision in Shenandoah's MSM to exclude revenues from new interruptible customers.

The Companies propose to merge the PGC provisions for WGL and Shenandoah so that former customers will be charged their

pro rata share of all system resources. The Companies propose to recover carrying charges on prepaid storage gas inventory through the PGC and to remove storage gas inventory from rate base. The Companies also propose to include in the PGC carrying charges on the Actual Cost Adjustment ("ACA") balances either over- or under-collected during the ACA determination period and subsequent ACA application period.

In accordance with § 56-235.6 of the Code of Virginia, the Companies request approval of an incentive rate plan, involving a 50/50 sharing of Virginia-regulated, weather-normalized earnings 100 basis points above, and a 50/50 sharing of responsibility for an earnings deficiency 100 basis points below, the midpoint of the Companies' authorized return on equity range, while maintaining the PGC and ACA mechanisms. The Companies propose an earnings sharing mechanism to implement the sharing of excess earnings or an earnings deficiency under the rate incentive plan.

The Companies ask the Commission not to suspend the proposed rates but request that the rates become effective on an interim basis, subject to refund, for service rendered on and after September 1, 2002, to permit the proposed rates and the revised PGC factors to be implemented at the same time.

NOW UPON CONSIDERATION of the Companies' application, the Commission is of the opinion and finds that this matter should

be docketed; that the complexity of the issues presented by the Companies' application does not lead us to conclude that the increases are likely to be justified upon full investigation and hearing; the Companies' proposed tariff revisions, other than those related to its incentive rate plan, should, therefore, be suspended pursuant to § 56-238 of the Code of Virginia, to and through November 11, 2002; that a hearing examiner should be assigned to conduct all further proceedings on this matter on behalf of the Commission; and a procedural schedule established as prescribed herein.

Pursuant to Va. Code § 56-235.6, the Commission finds that until it directs appropriate notice of the Companies' application, provides opportunity for hearing and makes the findings required under Subsection B of § 56-235.6 of the Code of Virginia, the Companies have no authority to implement an incentive rate plan form of regulation, and their proposed Earnings Sharing Mechanism to provide for the sharing of excess earnings or earnings deficiencies. Accordingly, the Companies shall not implement "performance-based rates" unless and until the Commission has approved the Companies' performance-based ratemaking methodology.¹

¹ Until such time as any performance-based form of regulation is approved, rate changes may be proposed pursuant to methods set out in Code §§ 56-235, -235.2, -237, -238, and the Commission's Rules Governing Utility Rate Increases and Annual Informational Filings, which permit filing of general or expedited rate cases, suspension of the proposed rates for limited periods, followed by

Accordingly, IT IS ORDERED THAT:

(1) The Companies' application for approval of a general increase in rates and charges, revisions in their tariffs and terms and conditions of service for natural gas service, and for a rate incentive plan is docketed as Case No. PUE-2002-00364.

(2) The incentive rate plan and the rate revisions related to the incentive rate plan shall not be implemented unless and until the Commission has approved the Companies' performance-based ratemaking methodology.

(3) The proposed rates and charges that are not a result of the proposed performance-based rate methodology are hereby suspended for a period of 150 days, to and through November 11, 2002.

(4) A public hearing shall be convened on December 16, 2002, at 10:00 a.m., in the Commission's Courtroom, Second Floor, Tyler Building, 1300 East Main Street, Richmond, Virginia, to receive comments from members of the public and to receive evidence on the captioned application. Any person not participating as a respondent as provided in ordering paragraph (8) below, may give oral testimony concerning the application as a public witness at the December 16, 2002, public hearing. Public witnesses desiring to make statements at the public

implementation of those rates subject to refund, investigation by the Commission, and notice and hearing requirements. Such rates are designed to allow an applicant to recover its reasonable rate of return.

hearing concerning this application need only appear in the Commission's second floor courtroom in the Tyler Building at the address set forth above prior to 9:45 a.m. on the day of the hearing and register a request to speak with the Commission's bailiff.

(5) As provided by § 12.1-31 of the Code of Virginia and the Commission's Rules of Practice and Procedure, 5 VAC 5-20-120, *Procedure before hearing examiners*, a hearing examiner is appointed to conduct all further proceedings in this matter on behalf of the Commission and to issue a final report herein.

(6) On or before September 13, 2002, the Companies shall file with the Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118, an original and fifteen (15) copies of any additional direct testimony, exhibits and other material supporting its application for a general increase to rates and charges for natural gas and proposed rate incentive plan.

(7) Upon written request received by its counsel, the Companies shall provide a copy of the application to the requesting party at no cost. If acceptable to the requesting individual, the Companies may provide the application, with or without attachments, by electronic means. Interested persons may also review a copy of the application and the Commission's Order for Notice and Hearing in the Commission's Document

Control Center, located on the First Floor of the Tyler Building, 1300 East Main Street, Richmond, Virginia between the hours of 8:15 a.m. and 5:00 p.m., Monday through Friday.

(8) Any interested person may participate as a respondent in this proceeding by filing, on or before October 16, 2002, an original and fifteen (15) copies a notice of participation with the Clerk at the address in ordering paragraph (6) above, and shall simultaneously serve a copy of the notice of participation on counsel to the Companies, Donald R. Hayes, Senior Attorney, Washington Gas Light Company, 1100 H Street, N.W., Washington, D.C. 20080. Pursuant to Rule 5 VAC 5-20-80, any notice of participation shall set forth (i) a precise statement of the interest of the respondent; (ii) a statement of the specific action sought to the extent then known; and (iii) the factual and legal basis for the action. Interested parties shall refer in all of their filed papers to Case No. PUE-2002-00364.

(9) Within five (5) business days of receipt of a notice of participation as a respondent, the Companies shall serve upon each respondent a copy of this Order, a copy of the application, and all materials filed with the Commission, unless these materials have already been provided to the respondent.

(10) On or before November 1, 2002, each respondent may file with the Clerk an original and fifteen (15) copies of any testimony and exhibits by which it expects to establish its case

and shall serve copies of the testimony and exhibits on counsel to the Companies and on all other respondents. The respondent shall comply with the Commission's Rules of Practice and Procedure, 5 VAC 5-20-140, *Filing and service*; 5 VAC 5-20-150, *Copies and format*; and 5 VAC 5-20-240, *Prepared testimony and exhibits*.

(11) On or before November 1, 2002, any interested person may file any comments on the captioned application with the Clerk at the address in paragraph (6) above and shall mail a copy to counsel to the Companies, Donald R. Hayes, Esquire, Washington Gas Light Company, 1100 H Street, N.W., Washington, D.C. 20080.

(12) The Commission Staff shall investigate the Companies' application for a general increase to its rates and charges and incentive rate plan. On or before November 15, 2002, the Staff shall file with the Clerk of the Commission an original and fifteen (15) copies of the Staff's testimony and exhibits regarding the captioned application and shall promptly serve a copy on counsel to the Companies and all respondents.

(13) On or before December 4, 2002, the Companies shall file with the Clerk an original and fifteen (15) copies of any rebuttal testimony that they expect to offer in rebuttal to the testimony and exhibits of the respondents and the Commission

Staff and shall on the same day serve one copy on Staff and all respondents.

(14) The Rules of Practice and Procedure, 5 VAC 5-20-260, *Interrogatories to parties or requests for production of documents and things*, shall be modified for this proceeding as follows: (i) answers and objections shall be served within five (5) business days after receipt of interrogatories; (ii) motions on the validity of any objections raised by answers shall be filed within five (5) business days of receipt of any objection; and (iii) answers, objections and motions on the validity of objections shall be served by 3:00 p.m. of the due date, unless the Staff or the party upon whom service must be made agrees in advance to other arrangements.

(15) On or before August 14, 2002, Washington Gas shall complete publication of the following notice as display advertising (not classified) on two occasions in newspapers of general circulation throughout Washington Gas' and Shenandoah's service territories within the Commonwealth of Virginia:

NOTICE TO THE PUBLIC OF AN APPLICATION
BY WASHINGTON GAS LIGHT COMPANY AND THE
SHENANDOAH GAS DIVISION OF WASHINGTON
GAS LIGHT COMPANY, FOR APPROVAL OF THE
REVISION OF RATES, CHARGES, AND TERMS AND
CONDITIONS OF SERVICE FOR NATURAL GAS SERVICE
AND TO IMPLEMENT AN INCENTIVE RATE PLAN
CASE NO. PUE-2002-00364

On June 14, 2002, Washington Gas Light
Company ("Washington Gas" or "WGL") and the

Shenandoah Gas Division of Washington Gas ("Shenandoah") (together "Companies") filed an application with the State Corporation Commission ("Commission") requesting the Commission to approve a general increase to their rates and charges for natural gas service as well as revisions to their terms and conditions of service. The application also seeks approval of an incentive rate plan pursuant to Va. Code § 56-235.6. The Companies seek an increase of \$23,809,086 in combined annual operating revenues, an increase of approximately 6.6% in total operating revenues. The Companies' application states that one of its purposes is the merger of the rates, terms and conditions and purchased gas charges ("PGCs") of WGL and Shenandoah and to begin moving towards the unification of the Companies' system, distribution and miscellaneous charges. The annual increases proposed in the application for customers of WGL and customers of the Shenandoah Division, by rate class, are as follows:

WGL VIRGINIA CUSTOMERS

Residential	6.9%
Commercial and Industrial	2.7%
Group Metered Apartments	2.2%

SHENANDOAH CUSTOMERS

Residential	2.1%
Commercial and Industrial	1.1%
Group Metered Apartments	1.6%

In accordance with § 56-235.6 of the Code of Virginia, the Companies request approval of an incentive rate plan involving a 50/50 sharing of Virginia-regulated, weather normalized earnings 100 basis points above and a 50/50 sharing of responsibility for an earnings deficiency 100 basis points below, the midpoint of the Company's authorized return on equity range, while maintaining the purchased gas charge and

actual cost adjustment mechanisms. The Companies propose an earnings sharing mechanism to implement the sharing of excess earnings or an earnings deficiency under the rate incentive plan. Interested parties are encouraged to review the application and supporting documents for the details of these and other proposals.

Pursuant to § 56-238 of the Code of Virginia, the Commission has suspended the Companies' proposed revisions to their existing rates, charges, terms and conditions of service, with the exception of the Companies' proposed revisions related to their incentive rate plan, through November 11, 2002. The Companies' proposals relative to the incentive rate plan may not take effect until the Commission has considered and determined the Companies' performance-based rate incentive methodology. Interested persons should be advised that, after considering all of the evidence, the Commission may approve revenues and adopt rates, fees, charges, and terms and conditions of service which differ from those appearing in the Companies' application or may apportion revenues among customer classes in a manner differing from that in the Companies' application. The Commission may also modify the incentive rate plan after considering all of the evidence.

A public hearing on the Companies' application shall be convened on December 16, 2002, at 10:00 a.m., before a Hearing Examiner in the Commission's second floor courtroom, located in the Tyler Building, 1300 East Main Street, Richmond, Virginia 23219. Individuals with disabilities who require an accommodation to participate in the hearing should contact the Commission at least seven (7) days before the scheduled hearing at 1-800-552-7945 (voice), or 1-804-371-9206 (TDD).

Interested persons may review a copy of the application and the Commission's Order for Notice and Hearing in the Commission's Document Control Center, located on the First Floor of the Tyler Building, 1300 East Main Street, Richmond, Virginia between the hours of 8:15 a.m. and 5:00 p.m., Monday through Friday. A copy of the application may also be obtained at no cost by interested persons by requesting the same from counsel for the Companies, Donald R. Hayes, Esquire, Washington Gas Light Company, 1100 H Street, N.W., Washington, D.C. 20080.

On or before October 16, 2002, interested persons may participate as respondents in this proceeding by filing an original and fifteen (15) copies of a notice of participation, pursuant to Rule 5 VAC 5-20-80 B of the Commission's Rules of Practice and Procedure, with the Clerk of the Commission at the address set forth below. Respondents shall serve a copy of the same upon counsel for the Companies at the address set forth above on or before October 16, 2002. Any notice of participation shall set forth (i) a precise statement of the interest of the respondent; (ii) a statement of the specific action sought to the extent then known; and (iii) the factual and legal basis for the action.

On or before November 1, 2002, each respondent shall file with the Clerk of the Commission an original and fifteen (15) copies of the testimony and exhibits it intends to offer in support of its notice of participation, and shall, on the same day, serve one (1) copy of such testimony and exhibits on counsel to the Companies and all other respondents.

On or before November 1, 2002, any interested person wishing to comment on the Companies' application shall file an original and fifteen (15) copies of written

comments with the Clerk of the Commission at the address set forth below and shall, on the same day, serve a copy of any such filed papers on counsel for the Companies at the address set forth above.

Interested parties shall refer in all of their filed papers to Case No. PUE-2002-00364. All comments, notices of participation or testimony shall be filed with Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218 and shall simultaneously be served on counsel for the Companies, Donald R. Hayes, Esquire, at the address set forth above. Official copies of the Commission's Order For Notice and Hearing may be obtained from the Commission's Document Control Center. The unofficial text of the Commission's Order For Notice and Hearing and other orders entered herein, the Commission's Rules of Practice and Procedure, as well as other information concerning the Commission and the statutes it administers, may be viewed on the Commission's web site <http://www.state.va.us/scc>.

WASHINGTON GAS LIGHT COMPANY
AND THE SHENANDOAH GAS DIVISION
OF WASHINGTON GAS LIGHT COMPANY

(16) On or before August 14, 2002, the Companies shall mail a copy of their application and this Order by personal delivery or by first-class mail, postage prepaid to the Chairman of the board of supervisors and county attorney of each county and upon the mayor or manager of every city and town (or upon equivalent officials in counties, towns and cities having alternate forms of government) in which the Companies provide service. Service

shall be made by first-class mail to the customary place of business or residence of the person served.

(17) On or before August 30, 2002, Washington Gas shall file with the Clerk proof of the publication and service required in ordering paragraphs (15) and (16).